ANNUAL REPORT

for the year ended june 30, 1966

fil

FLEET
manufacturing limited

FLEET MANUFACTURING LIMITED

ANNUAL REPORT

For year ended June 30, 1966

BOARD OF DIRECTORS

***A. William Baker**	Toronto, Ontario
Ernest A. DuVernet, Q.C.	Toronto, Ontario
Ronald K. Fraser	Hamilton, Ontario
Ralph C. C. Henson	Toronto, Ontario
Samuel Lax	Hamilton, Ontario
C. Norman Lucas	Quebec, Quebec
G. Philip Morphy	Fort Erie, Ontario

OFFICERS

Ronald K. Fraser	President
G. Philip Morphy	Vice-President — Finance
Ernest A. DuVernet, Q.C.	Secretary

AUDITORS

Clarkson, Gordon & Co.	Hamilton, Ontario

TRANSFER AGENTS

Guaranty Trust Company of Canada	Toronto, Ontario Montreal, Quebec Vancouver, British Columbia

BANKERS

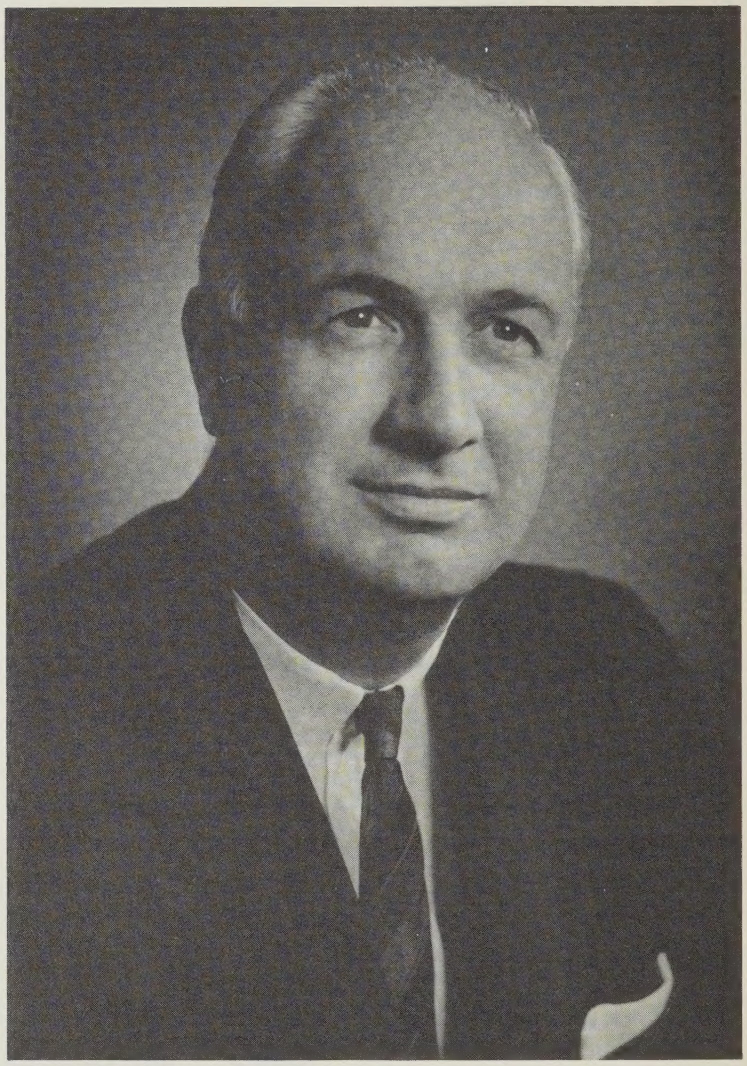
The Toronto-Dominion Bank	Queen St. and Ontario Ave. Niagara Falls, Ontario

*Resigned June 27, 1966

FLEET MANUFACTURING LIMITED

REPORT OF DIRECTORS

For year ended June 30, 1966



RONALD K. FRASER, President

To the Shareholders:

On sales of $5,398,175 Fleet Manufacturing Limited and its consolidated subsidiaries experienced a loss of $354,993 for the current year. Ronark Developments Limited (the subsidiary not consolidated) showed a profit of $212,259 on sales of $4,753,600. The combined loss amounted to $142,734 compared to $198,664 for the previous year.

Commercial contracts accounted for 60% of Fleet sales (1964 — 51%; 1963 — 41%) and defence 40% (1964 — 49%; 1963 — 59%). Aircraft components made up 65%, radar 17%, sonar 13% and miscellaneous 5%. Export sales, including Douglas DC9 components, accounted for 71% and domestic sales 29%.

The impact of increased orders and demanding schedules necessitated an increase in the labour force to 819 as at June 30, 1966. Aircraft, radar and sonar components are highly specialized products involving skills in many cases acquired only on the job, and requiring a learning curve performance which cannot be achieved during a period of high labour turnover and in-plant training. These were the most important reasons contributing to the loss.

In spite of these difficulties, high quality standards were maintained throughout the year and increased orders were received from Douglas, Long Beach (Navy A4 Skyhawk) and Douglas of Canada (DC9), General Electric, Syracuse (Radar Antennae and sonar staves and heat exchanger cabinets) and Grumman, Long Island (Navy A6A Intruder).

Additional design contracts were received from the Department of Defence Production, Ottawa for Project Diana-I — a sonar detection device for the Canadian Navy complementing the variable depth sonar handling gear referred to in last year's report, and a prototype sonar handling gear for the hydrofoil ship now under development. Production orders are expected as a result of this prototype work at Fleet.

Unfilled orders amounted to $7,210,000 at June 30, 1966 compared to $5,734,801 for the preceding year. Every effort is being made to increase our efficiency by adding management personnel and introducing improved systems and controls. In this connection, we have arranged with another company for the use of computer time with beneficial results. Our plant and machinery were upgraded, the principal addition during the year being a new autoclave installed at a cost of $236,370. The resulting increased metal bonding capability, coupled with our recognized ability in this field so essential to jet aircraft, should contribute to the profitable sales in the future.

Our negotiations for long term financing with the Industrial Development Bank were suspended when it was found necessary to renegotiate the terms of our contracts for DC9 components. This resulted in more satisfactory prices, assistance in financing through progress payments, and increased orders for both flaps and ailerons. Your directors are now reviewing alternative sources of long term financing.

The development of the 'unsinkable' reinforced fibreglass floats, covered by Canadian and U.S.A. patents, continued during the year. These floats, in limited production, are certified for Cessna 180 aircraft and have been under test this year with satisfactory customer acceptance.

Ronark Developments Limited

The serious tight money situation and the building permit restrictions in connection with Cherry Heights subdivision in the Township of Saltfleet, reduced single family unit sales in all areas to 61.

However, two major land sales in Hamilton contributed substantially to our profit.

The principal remaining land asset, Cherry Heights, is still the subject of a multiple family zoning application which is proceeding very well. It is anticipated that during the coming year a good portion of this valuable land can be put on the market.

Your company has continued to bid on Ontario Housing Corporation projects. During the year ended June 30, 1966, work was completed on 46 units in Hamilton and 24 in St. Thomas. Bids on 61 units in Kitchener and 22 units in Peterborough were successful and work is in progress.

Amesbrooke Investments Limited in Ottawa now has 140 townhouse rental units completed and occupied with an additional 62 units under construction. In addition, a new and improved site plan for a commercial building and 564 high rise units has been approved by the City of Ottawa and the Ontario Municipal Board.

Georgian Court Estates Limited in Burlington now has 116 townhouse rental units under construction, financed by an N.H.A. mortgage. In both of these companies, Ronark has a 50% interest and we are confident that substantial values are being created which will be translated into profits in the future.

In London, work was completed on 44 townhouse rental units (Berkshire) and subsequent to the year end, these were sold at a profit. We are presently negotiating for mortgage financing for the next phase.

Summary

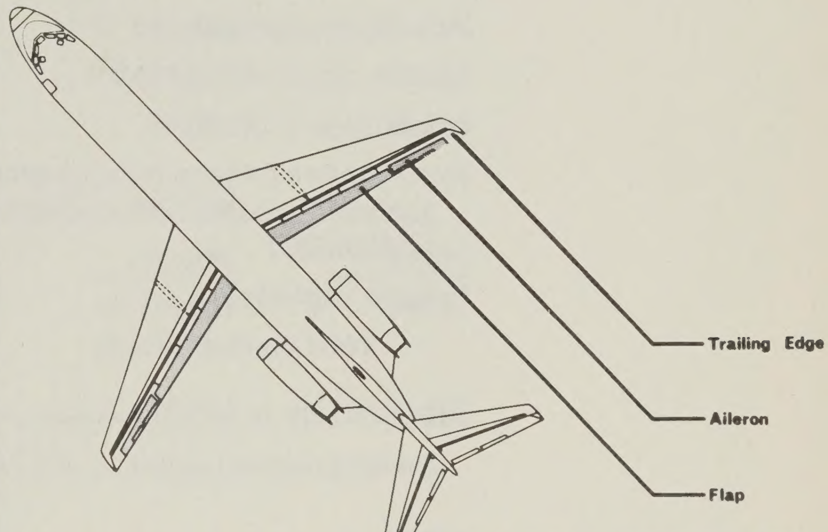
Fleet has experienced a very difficult year of expansion but it is hoped that most of the development and training experience are behind us. Aerospace components offer a good future for many years ahead but producing quality products on schedule will require constant upgrading of management skills, plant facilities, and production efficiency. Your directors are exerting every effort to insure that Fleet plays a major and profitable part in this growing Canadian industry.

Ronark will continue to suffer from the tight money situation which is unlikely to ease in the near future. However, by diversifying into contract work and concentrating on rental income projects, it should continue to be profitable.

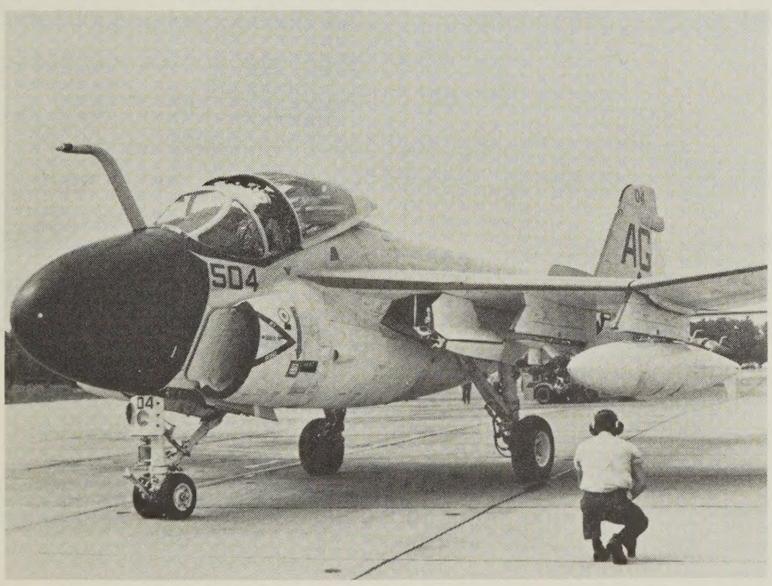
The Grumman Monthly Supplier Award for Excellence, presented in September of this year exemplifies the extraordinary effort put forth this year. Your Board of Directors wishes to express its appreciation to all the employees of Fleet, Ronark and its subsidiaries.

On behalf of the Directors,
R. K. FRASER, President.

Douglas Navy A-4F Attack Bomber
Speed Brakes and Flaps by Fleet



built by FLEET MANUFACTURING LIMITED



Grumman Aircraft Engineering Corporation
Project Sterling
Monthly Supplier Award for Excellence

Believing completely in the importance of our Project Sterling product improvement program, Grumman Aircraft Engineering Corporation is awarding this citation to those of its suppliers who responded so vigorously and effectively to our request for superior job performance.

Grumman Aircraft Engineering Corporation
TAKES PRIDE IN PRESENTING THIS AWARD TO:

Fleet Manufacturing Ltd.

for continuing efforts to encourage excellence of performance, thus helping us achieve a maximum of defense at a minimum of cost.

SEPTEMBER 1966
DATE

DEPUTY DIRECTOR OF MATERIALS — PURCHASING

Grumman Navy A6A Intruder
Bonded Components by Fleet

Towed Body
Variable Depth Sonar

FLEET MANUFACTURING LIMITED

Incorporated under the Laws of Ontario

CONSOLIDATED BALANCE SHEET, June 30, 1966

with comparative figures at June 30, 1965

ASSETS

	1966	1965
CURRENT:		
Cash	$ 1,291	$ 22,039
Accounts receivable	993,292	575,806
Income taxes recoverable	19,617	23,055
Inventories (note 3)	820,095	817,440
Expenditures on long term contracts less costs applied against billings (after deducting progress payments of $434,555)	538,195	
Prepaid expenses	19,594	23,840
Total current assets	2,392,084	1,462,180
INVESTMENT in wholly-owned subsidiary, Ronark Developments Limited (note 1)	1,000,506	788,347
FIXED		
Land, building, machinery and equipment — at cost	2,248,602	1,951,493
Less accumulated depreciation	1,538,751	1,439,712
	709,851	511,781
OTHER:		
Product development costs deferred	30,161	27,865
Sundry investments		14,378
Discount on debentures less amounts written off	2,867	4,667
	$4,135,469	$2,809,118

On behalf of the Board:
RONALD K. FRASER, Director
G. PHILIP MORPHY, Director

AUDITORS' REPORT

To the Shareholders of Fleet Manufacturing Limited:
We have examined the consolidated balance sheet of Fleet Manufacturing Limited as at June 30, 1966 and the consolidated statement of income and deficit for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated financial statements present fairly the financial position of the companies as at June 30, 1966 and the results of their operations for the year ended on that date, in accordence with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Canada
October 14, 1966

Clarkson, Gordon & Co.
Chartered Accountants

LIABILITIES

	1966	1965
CURRENT:		
Bank indebtedness (secured by a general assignment of book debts and a pledge of inventories)	**$ 501,725**	$.. 258,778
Accounts payable and accrued charges	**1,411,021**	450,082
Taxes payable	**69,364**	23,555
7% demand notes — due to directors (secured by first mortgage on real estate)	**152,000**	
Instalments of long term debt due within one year	**59,858**	37,000
Total current liabilities	**2,193,968**	769,415
LONG TERM DEBT (note 4)	**138,979**	94,447
SHAREHOLDERS' EQUITY:		
Capital stock (note 5) —		
6% cumulative redeemable convertible preference shares with a par value of $10 each — Authorized and issued — 60,000 shares	**600,000**	600,000
Common shares without nominal or par value — Authorized — 5,000,000 shares of which 1,921,000 shares are issued	**1,640,594**	1,640,594
	2,240,594	2,240,594
Deficit	**438,072**	295,338
	1,802,522	1,945,256
	$4,135,469	$2,809,118

FLEET MANUFACTURING LIMITED

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

For year ended June 30, 1966
with comparative figures for the year ended June 30, 1965

		1966		1965
Sales		$5,398,175		$3,158,229
Loss from operations of the company and its consolidated subsidiaries before the following		$ (234,358)		$ (13,716)
Depreciation	115,151		69,242	
Interest and discount on funded debt	8,484		10,388	
Directors' fees	3,500		3,300	
(Profit) or loss on sundry investments	(6,500)	120,635	13,250	96,180
Loss before income taxes recoverable		(354,993)		(109,896)
Income taxes recoverable				7,500
Loss for year of the company and its consolidated subsidiaries		(354,993)		(102,396)
Income or (loss) for year of unconsolidated subsidiaries		212,259		(96,268)
Loss for year		(142,734)		(198,664)
Deficit at beginning of year		295,338		96,674
Deficit at end of year		$ 438,072		$ 295,338

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, June 30, 1966

with comparative figures at June 30, 1965

1 **Basis of consolidation —**

The consolidated balance sheet incorporates the assets and liabilities of all wholly-owned subsidiaries with the exception of Ronark Developments Limited and its wholly-owned subsidiaries whose assets and liabilities are dissimilar to those of the parent and whose consolidated financial statements are available to the shareholders of the parent. The investment in Ronark Developments Limited is valued at the net equity of the parent in that company.

The accompanying statement of consolidated income includes the operating results of the subsidiaries referred to above. These subsidiaries did not carry on any trading operations in the year ended June 30, 1966. The statement also includes the consolidated income of Ronark Developments Limited and its subsidiaries.

2 **Accounting basis for determination of income —**

Gross profit on contracts is recorded as follows:

(a) On contracts extending beyond one year billable at a fixed price per unit, the proportion of total estimated gross profit for the entire contract applicable to the number of units shipped.

(b) On other contracts billable at a fixed price per unit, the actual gross profit applicable to units shipped.

(c) Other contracts on the percentage of completion method.

Where it is expected that a loss will be incurred on completion, provision is made for the total estimated loss. In the case of contracts extending beyond one year, revisions in cost and profit estimates (which can be significant) are reflected in the accounting period in which the relevant facts become known.

3 **Inventories —**

Inventories are valued at the lower of cost or market and consist of the following:

	1966	1965
Work in process	**$507,587**	$588,129
Raw materials and supplies	**312,508**	229,311
	$820,095	$817,440

(CONTINUED)

(CONTINUED)

4 **Long term debt —**

This consists of the following:

	1966	1965
6% chattel mortgage repayable in equal annual instalments of $6,900 each, October 1, 1966 to 1970	**$ 34,500**	
Conditional sale contract repayable in equal annual instalments of $15,082 on July 1, 1966 to 1969 with the balance due July 1, 1970	**71,918**	
Owing on fixed asset purchases repayable Oct. 6, 1966	**9,776**	$ 22,000
Real estate mortgage maturing August 15, 1981 bearing interest at 6½% per annum	**24,043**	24,847
5% convertible sinking fund debentures maturing January 31, 1968 — Originally authorized and issued — 350,000 Outstanding less funds held for bonds called	**58,600**	84,600
	198,837	131,447
Less instalments due within one year shown as a current liability	**59,858**	37,000
	$138,979	$ 94,447

5 **Capital stock —**

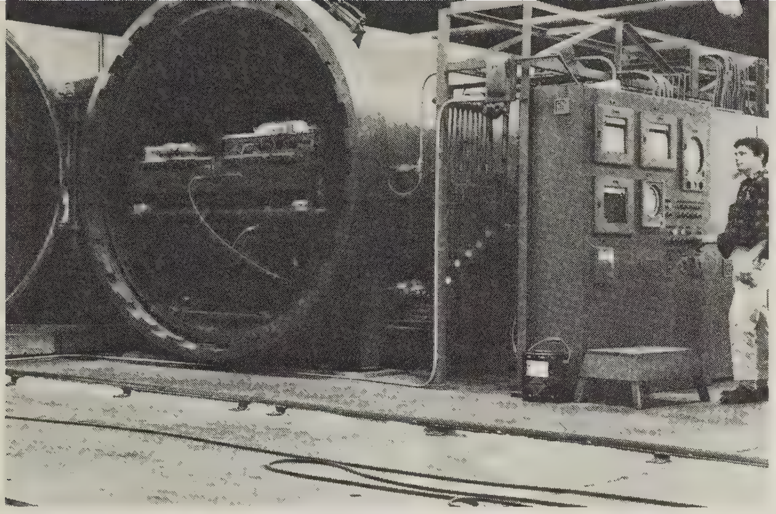
(a) The 60,000 6% preference shares and the 5% convertible debentures are convertible into common shares. At June 30, 1966, 639,069 common shares are reserved for such possible conversion.

(b) As at June 30, 1966, cumulative dividends were in arrears on the preference shares to the extent of $72,000.

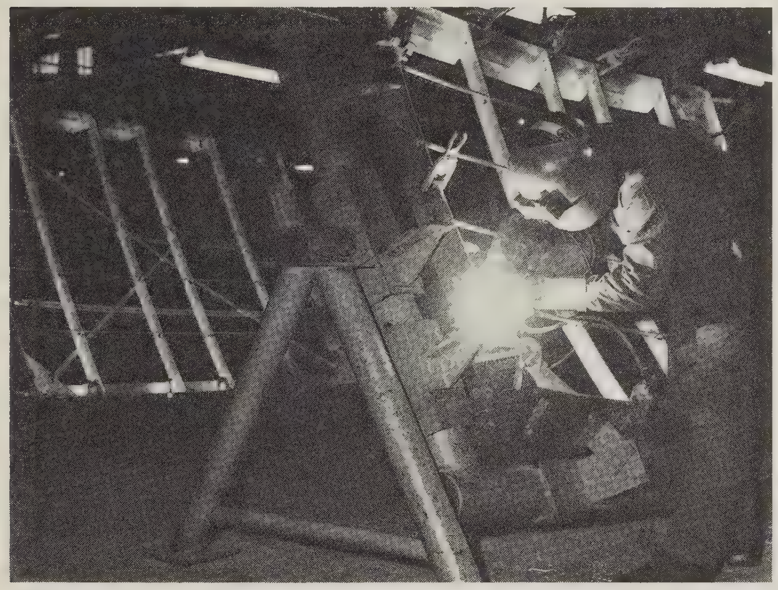
(c) During the year the option to purchase common shares which had been granted to the former president was cancelled.

6 **Contingent liability —**

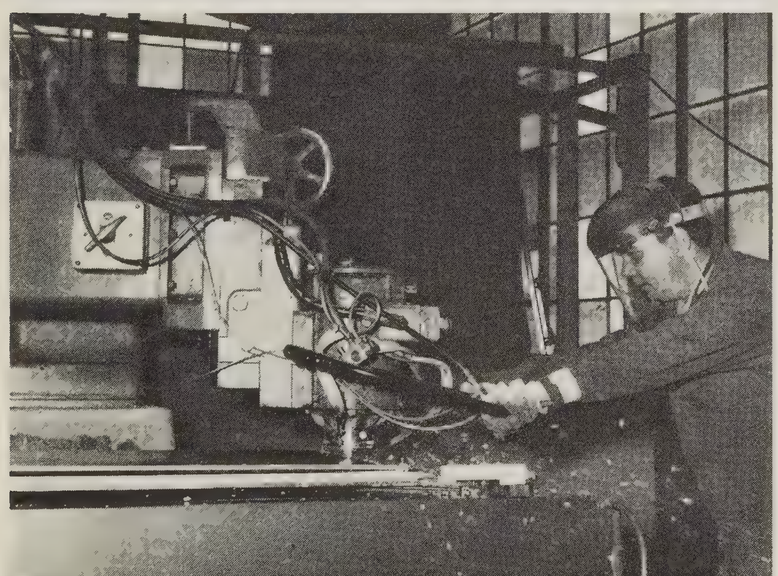
The company has guaranteed the bank indebtedness of Ronark Developments Limited (and its subsidiaries) to the extend of $250,000.



Devine Bonding Autoclave
Metal to Metal and Honeycomb Bonded Components
Working Area 8 ft. × 8 ft.
300 PSI, 600° F

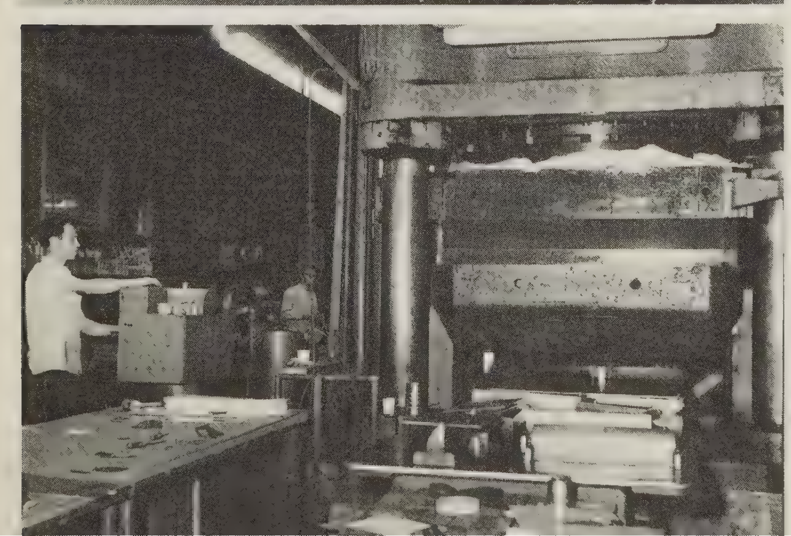


FPS88 Radar Screen Panel
Aluminum Metallic Inert Gas Welding



Wadkins High Speed Router

5000 Ton Rubber Press



RONARK DEVELOPMENTS LIMITED

Incorporated as a Private Company under the Laws of Ontario

CONSOLIDATED BALANCE SHEET, June 30, 1966

with comparative figures at June 30, 1965

ASSETS

	1966	1965
CURRENT:		
Accounts receivable	$ 187,014	$ 331,213
Instalments on land sales due within one year (note 2)	75,000	
Due from affiliated companies	372,388	222,396
Inventories of materials, work in progress and finished construction — at the lower of effective cost or net realizable value (note 1)	1,430,748	922,690
Less deposits from customers and advances under mortgage commitments	987,845	559,266
	442,903	363,424
Land for resale — at the lower of effective cost or net realizable value (note 1)		
Serviced	173,985	143,065
Unserviced	236,247	251,092
Prepaid expenses and deposits	85,593	18,733
Cash surrender value of life insurance	40,769	36,969
Total current assets	1,613,899	1,366,892
LAND HELD FOR DEVELOPMENT — at the lower of effective cost or net realizable value (note 1)	246,005	569,495
AMOUNTS DUE ON LAND SALES — secured (note 2)	580,000	
RESIDENTIAL MORTGAGES RECEIVABLE	66,816	47,738
INVESTMENT IN AFFILIATED COMPANIES — at cost	338,750	338,750
FIXED:		
Furniture, fixtures and equipment — at cost	96,877	83,176
Less accumulated depreciation	62,469	53,261
	34,408	29,915
	$2,879,878	$2,352,790

On behalf of the Board:
RONALD K. FRASER, Director
G. PHILIP MORPHY, Director

AUDITORS' REPORT

To the Shareholders of Ronark Developments Limited:
We have examined the consolidated balance sheet of Ronark Developments Limited and its wholly-owned subsidiary companies as at June 30, 1966 and the consolidated statement of income and earned surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated financial statements present fairly the financial position of the companies at June 30, 1966 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Canada,
August 24, 1966.

Clarkson, Gordon & Co.
Chartered Accountants.

LIABILITIES

	1966	1965
CURRENT:		
Bank indebtedness (note 3)	$1,255,562	$ 605,619
Less deposits to secure performance bonds	409,761	17,492
	845,801	588,127
Accounts payable and accrued charges	297,951	441,016
Liability to service land sold or for resale	74,518	80,798
Mortgages payable	131,102	114,602
Advances from affiliated company	30,000	40,000
Total current liabilities	1,379,372	1,264,543
INCOME TAXES DEFERRED to future years (note 4)	200,000	
7% DEBENTURES — repayable December 31, 1967 (subordinated to bank indebtedness)	300,000	300,000
SHAREHOLDERS' EQUITY:		
Capital stock —		
Authorized:		
990,000 6% non-cumulative redeemable preference shares with a par value of $1 each, redeemable at par		
10,000 common shares without par value		
Issued and fully paid:		
865,054 preferred shares	865,054	865,054
10,000 common shares	1,003	1,003
	866,057	866,057
Earned surplus or (deficit)	134,449	(77,810)
	1,000,506	788,247
	$2,879,978	$2,352,790

RONARK DEVELOPMENTS LIMITED

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

For year ended June 30, 1966
with comparative figures for 1965

	1966	1965
Sales	$4,753,608	$2,851,073
Income or (loss) before depreciation and debenture interest	$ 444,832	$ (60,996)
Depreciation	11,578	10,127
Debenture interest	20,995	25,145
	32,573	35,272
Income or (loss) before income taxes	412,259	(96,268)
Income taxes (note 4)	200,000	
Net income or (loss) for year	212,259	(96,268)
Earned surplus or (deficit) at beginning of year	(77,810)	18,458
Earned surplus or (deficit) at end of year	$ 134,449	$ (77,810)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, June 30, 1966

1 **Inventories of land** —
Effective cost of land to the company is greater than the cost of such land to the subsidiary companies by $64,423 in the aggregate (land included in houses in progress, $3,286; land for resale, $30,908; and land held for development, $30,229). This appreciation in value is being charged against income as the lands are sold.

2 **Amounts due on land sales** —

Secured by first mortgage on 75.2 acres of land, bearing interest at 6% per annum and repayable at the rate of $12,000 per acre as lands are sold, provided that repayments shall not be less than $50,000 by December 31, 1966, a further $100,000 each by Dember 31, 1967 and 1968, and the balance by May 14, 1971	$550,000
Irrevocable bank letter of credit bearing interest at 6% due in annual instalments of $25,000 commencing May 15, 1967 with the balance due May 15, 1970	105,000
	655,000
Less instalments on principal due within one year included in current assets	75,000
	$580,000

3 **Bank indebtedness** —

Secured by assignment of book debts, life insurance, irrevocable letter of credit, shares of certain affiliates, and certain land (subject to prior charges). In addition, the company and its subsidiaries have deposited as collateral security with their bankers debentures in the amount of $1,526,000 payable on demand and bearing interest at prevailing rates.

4 **Income taxes** —

Income taxes of $200,000 provided in 1966 are not currently payable because a subsidiary company intends to follow the practice of excluding profit on land sales from taxable income until mortgage receipts become due. Accordingly, the current year's liability for income taxes, $200,000, is included in the balance sheet as "Income taxes deferred to future years.,,

Income taxes for 1966 are reduced by $45,500 by the application of losses of prior years.

Georgian Court Estates
Burlington, Ontario

Amesbrooke
Ottawa, Ontario

Berkshire
London, Ontario

FLEET
manufacturing limited

Fort Erie Ontario

FLEET manufacturing limited

CONSOLIDATED STATEMENT OF INCOME

For the six months ended December 31, 1966

(unaudited)

Sales	$3,896,042
Depreciation	61,365
Net income of the company and its consolidated subsidiaries	215,365
Net income of unconsolidated subsidiary, Ronark Developments Ltd.	120,551
Net income for half year (See Note)	335,916

Note: Income taxes otherwise payable are eliminated by application of losses from prior years.

Sales and profits of Fleet Manufacturing Limited for the six months were considerably higher than for any similar period over the last twelve years.

Working capital for the half year has increased by $190,091 to $388,207 as at December 31, 1966 after additions to fixed assets amounting to $99,442.

The company recently completed negotiations with the factory union for a two year contract terminating December 31, 1968, providing for a 9.6% increase in rates for 1967 and an additional 7.6% for 1968.

With unfilled orders at December 31, 1966 amounting to $7,815,000 the future looks promising. However, the effect of higher wage rates and the reduction of general plant efficiency resulting from relatively short run contracts, particularly in the radar and sonar areas, must be taken into consideration.

Ronark Developments Limited, the real estate development subsidiary, produced sales of $3,360,290 for the six month period. Working capital for the half year has increased by $272,445 to $506,972 as at December 31, 1966.

Rental projects at London, Burlington and Ottawa and Ontario Housing Corporation contracts, accounted for the major portion of operations during the period. Additional N.H.A. financing has been obtained for phase two in both Burlington and London. Also an Ontario Housing Corporation contract for 90 units in St. Catharines has been awarded to Ronark, but actual work in these areas will not commence before late spring.

Further progress has been made in the multiple family zoning negotiations for Cherry Heights in the Township of Saltfleet, but it is doubtful if the application will be finalized before the year end June 30, 1967.

R.K. Fraser

President